

Example 2

	Current Law	H.R. 25
1. Overall Income	\$130,000	\$130,000
2. Tax-exempt Fringe Benefits		
a. Health Care (\$10,000)	– \$10,000	(included, since health care is subject to tax)
b. 401(K) plan (\$10,000)	– \$10,000	– \$10,000 (saved income is exempt)
3. Adjusted Gross Income	\$110,000	N/A
4. Allowable Deductions		
a. Personal Exemptions	– \$12,500	N/A
b. Home Mortgage Interest	– \$15,000	– \$10,000 (approximately 1/3 of mortgage interest expense is subject to the retail sales tax)
c. Real Property Taxes	– \$6,000	(included because taxed at State level)
d. Charitable Contributions	– \$1,000	– \$1,000
5. Taxable Income	\$75,500	N/A
6. Pre-Credit Income Tax	\$12,350	N/A

7. Per Child Credit	– \$2,000	N/A
8. Final Income Tax Liability	\$10,350	N/A
9. Payroll Tax Liability	\$7,045 (6.2% of \$87,900 + 1.45% of \$110,000)	
10. Taxable Consumption Expenditures before Low-Income Exemption	N/A	\$109,000
11. Exemption for Poverty Level	N/A	\$19,000
12. Total Consumption Expenditures Subject to Retail Sales Tax	N/A	\$90,000
TOTAL LIABILITY	\$17,395 (which is the sum of the net income tax liability and the payroll tax liability)	\$27,000 (computed at the 23% tax-inclusive rate included in H.R. 25)